

REINVESTMENT ALERT

Woodstock Institute

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Where Banks Aren't: Despite Growth in Chicago Area Bank Offices, Low-Income and Minority Communities Remain Underrepresented

Introduction¹

In the last year, Bank One, Bank of America, Washington Mutual, Wells Fargo, and many other large financial institutions announced plans to open new bank branches in the Chicagoland area.² In total, banks have announced the planned addition of hundreds of new branches in the coming years. Although it is not guaranteed that all of these branches will be built, these announcements present an opportunity for communities lacking adequate access to quality banking services to take a proactive approach in attracting a new bank branch to their neighborhoods.

The benefits of having a financial institution in a community are well documented. Banks function as community anchors serving as facilitators of homeownership and small business finance. They also act as anchors of financial stability that help reduce reliance on high-cost check cashing operations and offer an opportunity to unbanked individuals to join the financial mainstream. Additionally, bank branches can function as anchors of real estate developments spurring new economic development projects and attracting additional investment and local employment opportunities.

In the Chicago area, however, many communities are underserved by financial institutions. The number of bank offices in the Chicago area has increased substantially during recent years, but much of this growth has occurred in the wealthier, mostly white Chicago suburbs. Lower-income and minority communities are generally underserved by bank offices. In these communities, the void created by a lack of banking services is frequently filled by fringe financial institutions such as check cashing stores that charge significantly higher fees for their services.

This Alert begins with a summary of factors that influence bank branching. Then using data from the FDIC Summary of Deposits Database and the 2000 US Census it will discuss general trends in bank office growth in the Chicago area from 1994 to 2002. The Alert then will look at 2002 bank office distribution in Chicago area zip codes broken out by income level and minority status and offer recommendations for improving bank office distribution. The Appendix gives detailed demographic and bank office information for each area zip code.

¹The author would like to thank Marva Williams, Dan Immergluck, Beverly Berryhill, and Patricia Woods-Hessing for their help in the production of this Alert.

²Daniels, Steve. November 18, 2002. "Bricks Not Clicks; Banks Bet on New Branches, Sparking a Building Boom." *Crain's Chicago Business*.

Factors Effecting Bank Branching

Bank office distribution is influenced by a number of factors including population change, technological development, and changes in state and federal laws. As metropolitan areas expand and regions on the fringe of cities experience rapid population growth, banking services will likely follow, while other areas experiencing slow or no population growth would likely see a slow or no increase in bank offices. Additionally, the increased prevalence of ATM and Internet banking may have some impact on branching patterns. In the 1990s, it was predicted that bank offices might ultimately become obsolete because consumers would chose to bank on-line or through expanding ATM networks. Numerous banks created strong disincentives for their customers' use of in-branch tellers, attempting to shift services to less labor intensive and more cost effective delivery channels. Recently, however, financial institutions have reversed this trend and begun to move away from this more impersonal approach to banking. As this branch building boom might indicate, many financial institutions seem to be returning to face-to-face transactions as the primary way to deliver services.³

In addition to demographic and technological trends, changes to state and federal laws regulating banking have also had an impact on bank office location. Until recently, Illinois was a state with strict bank branching regulations, not allowing bank offices separate from the main institution until 1967. Banks were not allowed to open offices outside their home counties until the mid-1980s and even then the number of offices and their distance from the home bank was strictly regulated. In 1993, Illinois joined a number of other states in greatly relaxing intrastate branching regulations and allowing unlimited branching in the state.⁴ A study by researchers at the Federal Reserve shows that states such as Illinois experienced a more rapid growth in banking offices than other states that did not change regulations.⁵

Nationally, a number of laws regulating bank mergers and acquisitions and location of bank branches were passed in the 1990s. The Riegle-Neal Act of 1994 allowed for interstate mergers of bank holding companies and interstate bank branching. As bank merger activity increased, many felt that a reduction in overlapping bank offices of newly merged, larger financial institutions would follow, thus leading to an overall reduction in access to banking services. This has not necessarily been the case. From 1990 to 2001, the number of FDIC insured commercial deposit institutions decreased from 12,347 to 8,080 (34.6 percent decline) while the number of banking offices of these institutions increased from 62,753 to 73,644 (17.4 percent gain).⁶ Research has shown an ambiguous relationship between bank consolidation and the distribution of these banking offices.⁷

³McKendrick, Joseph. May 2002. "Back to the Branch: Customers may demand access to every e-channel, but they still want a smiling face." *Bank Technology News*. 15:5: 1, 16.

⁴For a brief history of bank branching regulation in Illinois see <http://www.obre.state.il.us/cbt/STATS/br-hist.htm>.

⁵Avery, Robert B. et al. 1997. "Changes in the Distribution of Banking Offices" *Federal Reserve Bulletin* 83:9: 708-725.

⁶FDIC Historical Statistics on Banking: www2.fdic.gov/hsob.

⁷Avery, Robert B. et. al., 1999. "Consolidation and Bank Branching Patterns" *Journal of Banking & Finance* 23: 497-532. Avery et.al., (1999) shows that in zip codes where branch networks of merged institutions overlap, there tends to be a decline in per capita bank offices, but, market-wide, bank consolidation does not necessarily result in a decline of per capita bank offices. Another concern relating to bank consolidation, however, is its impact on services provided by banks. As decision making centers of larger financial institutions become further removed from the community and increasingly rely on credit scoring models, access to more traditionally relationship driven products like small business loans may be reduced for marginal borrowers often found in lower-income and minority communities. See Immergluck, Dan and Smith, Geoff. 2001. "Bigger, Faster...But Better? How Changes in the Financial Services Industry Affect Small Business Lending in Urban Areas." Brookings Institution Center on Urban and Metropolitan Policy: Washington D.C.

Another federal law impacting bank branching is the Community Reinvestment Act (CRA). CRA was enacted in 1977 to ensure that financial institutions serve the needs of all the communities in their assessment area, including low- and moderate-income (LMI) areas. Traditionally, CRA had a primary focus on the distribution of lending, but in 1995, tests were added to examine an institution's level of community investment and services. The service test assesses, among other things, a bank's branch distribution in LMI parts of its assessment area and an institution's history of opening and closing bank offices serving LMI neighborhoods and customers.

Banking Office Distribution in the Chicago Area

The following sections examine bank office distribution in the Chicago area. The first section breaks down changes in bank offices distribution at the county level. The next section analyzes current bank office distribution for Chicago area zip codes by income and minority status of the zip code.⁸

Bank Office Change in the Chicago Area, 1994-2002

In the Chicago six county area, the number of banking offices grew rapidly from 1994 to 2002. Bank office growth outpaced population growth in every county (Table 1). The most rapid bank office growth occurred in the collar counties of Will (72.2 percent increase) and McHenry (53.9 percent increase), while the slowest growth occurred in Cook County (22.3 percent increase). When disaggregating Suburban Cook and Chicago, Suburban Cook experienced the slowest regional bank office growth (19.9 percent).

Table 1: Chicago Area Change in Bank Office Distribution, 1994-2002

County	1994 Offices	2002 Offices	1994-2002 Office Change	1990-2000 Population Change	2002 Share of Offices	2000 Share of Population	2002 Offices Per 10,000
Cook	991	1,212	22.30%	5.32%	58.05%	66.45%	2.25
Suburban Cook	602	722	19.93%	6.87%	34.58%	30.66%	2.91
Chicago	389	490	25.96%	4.03%	23.47%	35.79%	1.69
DuPage	249	316	26.91%	15.67%	15.13%	11.17%	3.49
Kane	95	134	41.05%	27.29%	6.42%	4.99%	3.32
Lake	131	190	45.04%	24.76%	9.10%	7.96%	2.95
McHenry	65	100	53.85%	41.93%	4.79%	3.21%	3.85
Will	79	136	72.15%	40.57%	6.51%	6.21%	2.71
6-County Area Totals	1,610	2,088	29.69%	11.44%	100%	100%	2.58

⁸FDIC Summary of Deposits data for 1994 and 2002 were used for bank office locations. The Summary of Deposits is collected on a yearly basis and contains deposit information on FDIC insured institutions and their offices (see www3.fdic.gov/sod/). U.S. Census data for year 2000 were used to determine zip code demographics. Although this data allows us to get a sense of bank office distribution in the Chicago area, it has limitations. The office data does not give a sense of the services each office provides. While areas may have banking offices, we are unable to know if these offices provide services that fit the needs of the community. Additionally, zip codes are often large geographic entities that can mask the demographic complexities of the communities within. Also, zip codes often change geographic boundaries making it difficult to track bank office change accurately at that geographic level. Any analysis of change in the number of bank offices is restricted to the county or city level.

Despite experiencing the slowest growth, Cook County has the highest concentration of the region's banking offices and population. Cook County, however, lags behind the region in bank offices per 10,000 people (Cook County-2.25; Regional average-2.58). Although Chicago has the largest share of the region's population and the second largest share of bank offices (behind suburban Cook), the city has by far the lowest number of bank offices per 10,000 at 1.69 (see Figure 1). This figure is even lower when the central business district (the Loop) is removed from the Chicago calculation because it has a high concentration of banking offices and low population.

Bank Office Distribution by Income and Minority Population of Area Zip Codes, 2002

An explanation for Chicago's low number of banking offices per capita is the city's high concentration of low- and moderate-income and minority neighborhoods. These areas are significantly underserved by bank offices compared to wealthier and more white areas.

When breaking bank office distribution down for low-, moderate-, middle-, and upper-income zip codes,⁹ we see in Table 2 that low- and moderate-income areas are significantly underrepresented by bank offices relative to the region as a whole, and especially when compared to middle- and upper-income areas. Together, low- and moderate-income areas account for nearly one third of the area population, but have less than 17 percent of area bank offices. On the other hand, upper-income zip codes have only 30 percent of the area's population, yet account for nearly 44 percent of area bank offices. Although it might be expected that upper-income areas would have significantly more banking offices per capita (3.72 bank offices per 10,000 residents) than low-income areas (0.79 per 10,000), moderate-income areas have roughly half the offices per capita (1.36 per 10,000) of middle-income zip codes (2.70 per 10,000) and fall well below the per capita regional average (2.58 per 10,000).

Table 2: Bank Office Distribution by Zip Code Income, 2002

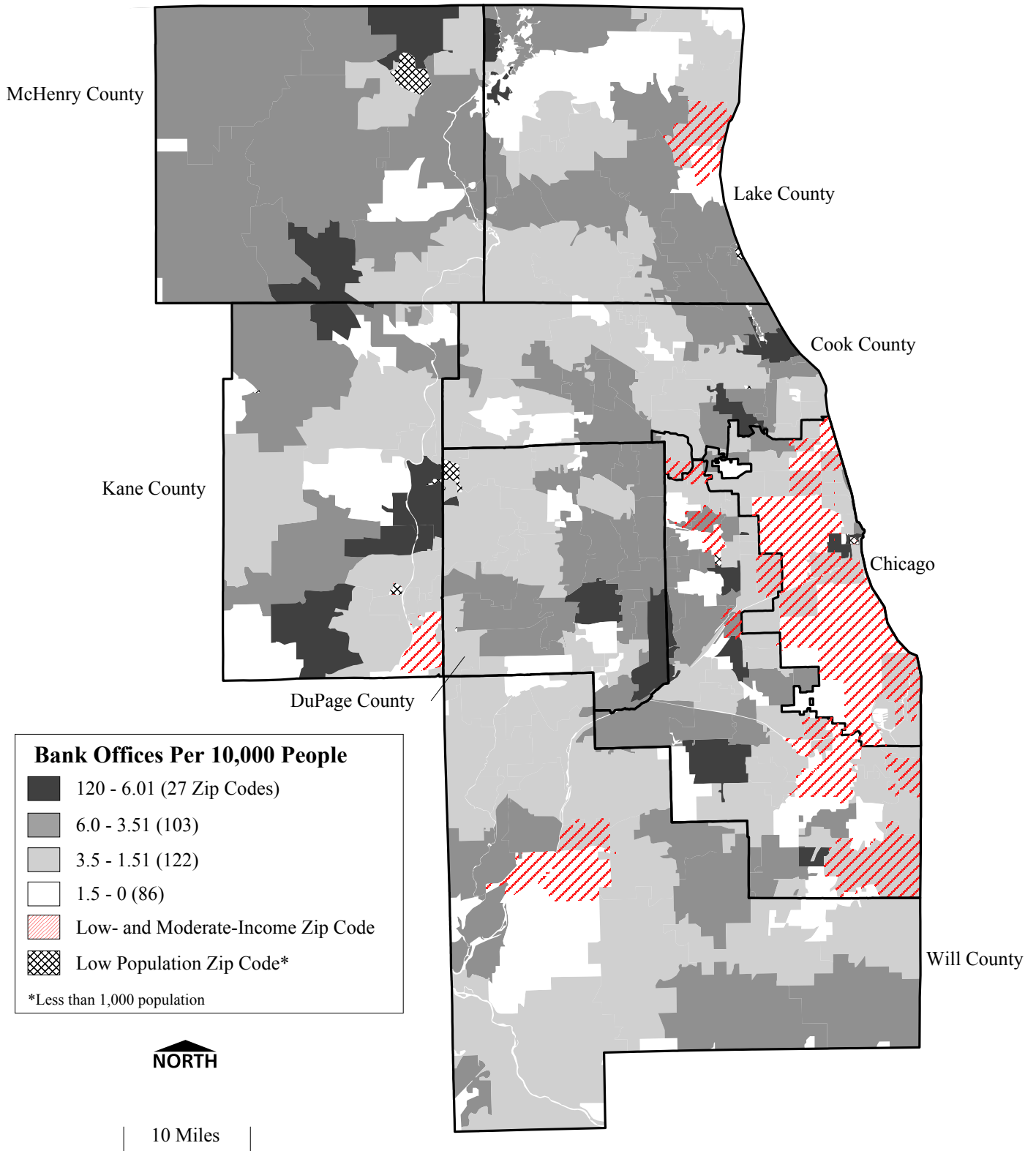
	2002 Bank Offices	2000 Share of Population	2002 Share of Bank Offices	Offices Per 10,000
Upper-Income	912	30.4%	43.7%	3.70
Middle-Income	804	36.8%	38.5%	2.70
Moderate-Income	304	27.6%	14.6%	1.36
Low-Income	33	5.1%	1.6%	0.79
6-County Totals	2,088	100%	100%	2.58

Minority zip codes¹⁰ in the Chicago region are heavily underrepresented by banking offices (Table 3). Predominantly Minority zip codes have over 23 percent of the area population, but less than 10 percent of area bank offices, while Predominantly White zip codes have just over 40 percent of the area population, but 57 percent of area bank offices. Predominantly White areas are well represented on a per capita basis as well. All areas except those Predominantly White fall below the regional average of

⁹Low-income areas are those that have a median family income less than 50 percent of the 1999 Chicago MSA's; Moderate-Income areas are 50 percent-80 percent; Middle-income areas are 80 percent-120 percent; and Upper-Income areas are greater than 120 percent.

¹⁰Race categories are based on 2000 census data. Predominantly Minority zip codes are 100 percent to 75 percent minority; Majority Minority - 75 percent to 50 percent minority; Moderately Minority - 50 percent to 25 percent minority; and Predominantly White greater than 75 percent white.

Figure 1: Banking Offices Per Capita, Chicago Area Zip Codes, 2002



per capita bank offices. Majority Minority zip codes have about half the number of bank offices per capita (1.89) compared to Predominantly White zip codes (3.64). Predominantly Minority zip codes have 1.10 offices per 10,000 compared to 2.58 region-wide.

Table 3: Bank Office Distribution by Zip Code Race, 2002

	2002 Bank Offices	2000 Share of Population	2002 Share of Bank Offices	Offices Per 10,000
Predominantly White	1,202	40.7%	57.6%	3.64
Moderately Minority	439	22.7%	21.0%	2.39
Majority Minority	206	13.5%	9.9%	1.89
Predominantly Minority	206	23.1%	9.9%	1.10
6-County Totals	2,088	100%	100%	2.58

Zip codes over 50 percent minority that are Majority African American (50 percent or greater African American) are significantly underrepresented by bank offices compared to both the regional average and all other Minority zip codes (Table 4). In 2002, African-American zip codes had 1.04 bank offices per 10,000. Majority Hispanic zip codes (50 percent or greater Hispanic) had 1.77 offices per 10,000, the greatest for minority zip codes, but still well below both the regional average (2.58) and the average for majority white zip codes.

Table 4: Bank Offices by Predominant Minority in Zip Code, 2002

	2002 Bank Offices	2000 Share of Population	2002 Share of Bank Offices	Offices Per 10,000
Majority Hispanic	100	7.0%	4.8%	1.77
Majority African-American	124	14.8%	5.9%	1.04
Mixed Minority	188	14.8%	9.0%	1.57
All Minority Zip Codes	412	36.5%	19.7%	1.39
6-County Totals	2,088	100%	100%	2.58

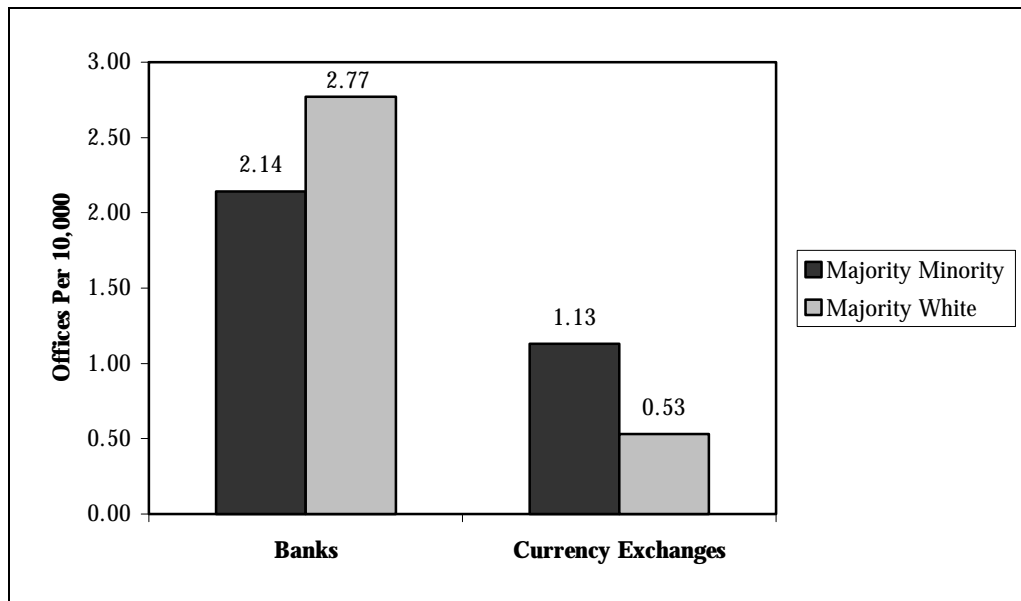
Minority zip codes are underrepresented by banking offices despite income levels (see Figure 2). Comparing middle-income zip codes that are majority minority (greater than 50 percent minority) to middle-income zip codes that are white (greater than 50 percent white) shows that minority, middle-income zip codes have distinctly fewer per capita banking offices (2.14 per 10,000) than of white, middle-income zip codes (2.77 per 10,000) and even fewer than the six county average (2.58 per 10,000). As an aggregate, middle-income zip codes (2.70 per 10,000) are above the regional average.

While these middle-income, minority zip codes are underrepresented by bank offices, they are over represented by check cashing outlets, or currency exchanges as they are known in Illinois (see Figure 2). In minority, middle-income zip codes, there are 1.13 currency exchanges per 10,000.¹¹ This is over double the average for majority white, middle-income zip codes (.53 per 10,000) and well above the

¹¹Illinois Department of Financial Institutions. 2003. List of Currency Exchange Licensees.

regional average (.76 per 10,000). These numbers imply that middle-income, minority areas, relative to other areas, are better served by fringe financial services such as currency exchanges than mainstream banks. Currency exchanges are a one of many fringe financial service providers that are commonly found in lower-income areas. They offer services such as cashing checks and writing money orders for a fee. However, these services cost more than comparable ones offered at mainstream financial institutions and unbanked consumers have a difficult time building any type of savings or credit history and accessing other bank products such as prime mortgage loans.

Figure 2: Per Capita Financial Services in Middle-Income Zip Codes by Minority Level



Conclusion and Recommendations

As Chicago enters a bank office building boom, it is important for financial institutions to recognize that there is significant opportunity and demand for expansion in areas currently underserved by mainstream financial services. Two recent stories from different parts of the metropolitan area illustrate this point. The town of Robbins, a low-income, predominantly African-American suburb in southern Cook County, held a community celebration at the unveiling of the town's first ATM.¹² Robbins has no bank offices, and one check cashing location. Meanwhile on the other side of town in Lake Forest, an upper-income, white suburb in Lake County, city officials are considering placing a moratorium on new bank offices because the large number of banks threaten the character of the town's business district.¹³ Lake Forest has 12 bank offices (5.40 per 10,000). It has zero currency exchanges. These respective towns' reactions to the prospect of new banking services illustrates the gap that exists in the Chicago area for access to financial services in rich and poor, white and minority municipalities and the demand that exists for these services in lower-income and minority communities in the region.

¹²Hohl, Alice. March 4, 2003. "Robbins Gets its First ATM." *Daily Southtown*.

¹³Daniels, Steve. February 24, 2003. "In This Burb, Banks Spring Up Like Trees; As Lake Forest Branches Bloom, a Backlash Brews." *Crain's Chicago Business*.

The skewed distribution of banking offices in the Chicago area can be addressed through the following recommendations:

Federal Government: The service test should be maintained by federal regulators as an independent component of CRA examinations. Banks must be rigorously examined for their distribution of bank offices and histories of opening and closing offices in low- and moderate-income communities. Additionally, the Justice Department should closely monitor financial institutions for their distribution of bank offices in minority, particularly African-American, areas.

Municipal Governments: Local governments can facilitate branching by streamlining the zoning code and building permit application process to make it easier for new branches to be built.

Community Organizations: Community organizations should take an active approach to attracting a bank office to their areas. A local organization can sell its community to banks by demonstrating local market demand for banking services and identifying suitable real estate sites. Woodstock Institute can offer assistance to organizations seeking to attract a bank to their community.

Banks: Ultimately, it falls upon financial institutions to recognize the demand for banking services in low- and moderate income, minority, and immigrant communities. A lesson can be learned from mortgage lending. It took banks time to recognize the market and develop products geared toward these communities. This is a continuing process for many banks, but those who have developed these markets have found tremendous growth there. The same can be true for bank branching. Expanding branch networks into LMI and minority communities, developing appropriate products, and increasingly incorporating these markets into the financial mainstream can be a good long term investment for banks.

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